

## SMALL SCALE INDUSTRY

Small-scale industries (SSI) play a key role in the industrialization of any developing country. Development of modern small-scale industries has been one of the most important features of industrial development. After the independence, the government has been formulating various policies to develop or revive cottage and small-scale industries.

### 13.1 DEFINITION

The definition of small-scale industry is important. The first official idea was in terms of gross investment in land, building, plant and machinery and number of workers engaged. From time to time, there have been many changes in the limit of investment in plant and machinery. In the beginning, during 1955, for a small-scale industry, the ceiling limit for investment was 5 lakhs with less than 50 employees when using power or less than 100 employees when power is not used.

Further the term SSI has been defined in three ways.

#### (i) Conventional definition

Conventional definition includes cottage and handicraft industries that employ conventional labour-oriented methods to produce conventional products, mainly in the rural areas. Some examples are handloom and handicrafts.

#### (ii) Operational definition

The operational definition for the policy purpose includes "all the undertakings having an investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or hire-purchase, not exceeding Rs. 60 lakhs". Ancillary units and Tiny units also come under the scope of SSIs.

#### (iii) National income accounting

National income accounting includes all manufacturing and processing activities, including maintenance and repair services, undertaken by both household and non-household small-scale manufacturing units not registered under Factories Act.

A small-scale industry is defined as "A unit engaged in manufacturing, servicing, processing, servicing and preservation of goods having investment in

plant and machinery, at an original cost not exceeding Rs. 60 lakhs". (Rs. 75 lakhs for Ancillary undertaking and Rs. 5 lakhs for Tiny sector).

With effect from 1997, the government has raised the investment ceiling in plant and machinery for the small-scale sector to Rs. 3 crore from the existing Rs. 60 lakhs. For ancillary units it is increased to Rs. 3 crore and for tiny sector, it is raised to 25 lakhs. Presently, the Government had reduced the ceiling on investment in fixed assets and machinery for SSIs and ancillary to Rs. 1 crore.

The details of ceiling limit of investment in SSIs over the time period are shown below:

Sl.No.	Year	Ceiling limit for SSIs
1.	1950	Capital assets upto Rs. 5 lakhs
2.	1958	Capital investment upto Rs. 5 lakhs
3.	1960	Gross value of fixed assets upto Rs. 5 lakhs
4.	1966	Value of plant and machinery upto Rs. 7.5 lakhs
5.	1975	Plant and machinery Rs. 10 lakhs
6.	1980	Upto Rs. 20 lakhs on plant and machinery
7.	1985	Upto Rs. 35 lakhs on plant and machinery
8.	1991	Upto Rs. 60 lakhs on plant and machinery
9.	1997	Upto Rs. 3 crore on plant and machinery

The new definition of SSI as per the Union Ministry of Commerce and Industries (1960) was "Small-scale Industry will include all industrial limits with a capital investment not more than Rs. 5 lakhs, irrespective of the number of persons employed".

### 13.2 CHARACTERISTICS OF SSIs

The following are some of the important characteristics of a small-scale industry:

- Capital investment is small and most of them have small number of workers.
- Generally owned by a single or at the most two persons and engaged in production of small goods.
- Most of them are family owned industries.

- (iv) Workers are not well recognized and they may do different types of works as need arises.
- (v) Funded by owner's savings or short-term loans.
- (vi) Small-scale industrial activity is mainly dependent on owner's entrepreneurship.
- (vii) Exploitation of natural resources and human resources.
- (viii) Generally management and organization are very poor or nonexistent in SSIs.
- (ix) Incidents of early closure are of highest order.
- (x) Profit margins are less due to competition.
- (xi) Innovation and risk bearing are high in SSIs.
- (xii) Faces cut throat competition.
- (xiii) Few of them many grow as medium scale industries.
- (xiv) Technology may become obsolete, resulting in closure of SSIs.
- (xv) Generally found in urban or semi urban areas.

### 13.3 NEED AND RATIONALE OF SSIs

In countries like India where plenty of labour is available and not enough capital, small-scale industries have a vital role to play in the industrialization and economy. Generally small-scale industries have a very high potential of employment with low capital investment. SSIs help encouraging entrepreneurship, providing jobs and improving economy particularly in semi-urban and rural areas. SSIs have high potential for local employment, promote entrepreneurship and promote earnings and improve economy of the country. The following are some of the important points that stress the need and rationale of SSIs.

#### (i) Innovative:

Small units are generally highly innovative. In SSIs, there will not be enough facilities, machines or resources. To get the jobs done with the limited available facilities, innovation arises.

#### (ii) Self satisfaction:

It gives lot of self-satisfaction to workers for having done a good job with limited facilities.

#### (iii) Caters to individual taste and styles:

SSIs can change or alter the process and production according to the changes in taste and fashions of the customers.

#### (iv) Small in operation

SSIs utilize local labour, small in operation and leads to satisfaction of the entrepreneur.

#### (v) Strength of nation

Small-scale industries are generally locally owned and well controlled. This leads to strengthening of a family and other social systems and thus strengthening of nation.

#### (vi) Spread over wide areas

Unlike large-scale industries that are concentrated at one or two places, SSIs can spread over the entire nation leading to uniform development of country. Government is supporting to start SSIs in backward areas with an aim to improve the nation.

Thus SSIs play a vital role in the industrialization of a developing country. SSIs need smaller investment, offer a means of equal distribution of national income, better utilization of local skills and resources. They create the growth of industrial entrepreneurship and promote a wide spread ownership location.

### 13.4 OBJECTIVES OF SSIs ✓

The objectives of SSIs are listed below:

- (i) Creation of employment opportunities.
- (ii) Improvement of output, income and better standard of living.
- (iii) Elimination of economic backwardness of rural and underdeveloped areas.
- (iv) To reduce regional imbalances.
- (v) To provide employment and means of a regular source of income to the needy people living in rural and semi-urban areas.
- (vi) To improve the quality of industrial products produced in cottage industries and increase production and profits.
- (vii) To facilitate import substitution.
- (viii) To encourage entrepreneurship and self-reliance.
- (ix) To mobilize regional resources of capital.

Development of SSIs has gained a remarkable importance in Five Year Plans of India. Promotional plans like - development of entrepreneurship, supported by consultancy services, technology know how, institutional support, allocation of site in industrial estates, rebates etc., are provided by Government for setting up SSIs.



### 13.5 SCOPE OF SSIs

The scope for small-scale industries is quite vast, covering a wide range of activities requiring less sophisticated technology. The following are some of the areas of scope of SSIs.

- Manufacturing activities
- Servicing/repairing activities
- Construction activities
- Financial activities
- Retailing activities
- Wholesale business
- Transport activities
- Public utilities
- Communication etc.

In order to strengthen the scope for small industry development in the country, the Government of India has, along with its other assistance programmes, announced its reservation policy for small sector in the country in 1967 with 47 items reserved for SSIs. By 1983, the list of reserved items included 836 items. Presently there are 824 items reserved for exclusive production in small sector. Some of the industries reserved for exclusive development in the small sector are:

- Food and Allied Industries
- Clock and watches
- Stationary items
- Textile products
- Sports goods
- Leather and Lather products including Footwear
- Mathematical and survey instruments
- Rubber and plastic products
- Miscellaneous transport equipments
- Chemical and chemical products
- Bicycle parts, tricycles and perambulators
- Glass and Ceramics
- Natural essential oils
- Electrical appliances, Electronic components and equipment
- Organic chemicals and chemical products
- Metal cabinets

- Boats and truck body building
- Mechanical Engineering and Transport Equipment etc.

### 13.6 ROLE OF SSI IN ECONOMIC DEVELOPMENT

Economic development is defined as an increase in per-capita income of a person resulting in improvement in the levels of living. The development of SSIs contributes to the increase in per-capita income. SSIs generate immediate employment opportunities with relatively low capital investment, promote even spread of national income, make effective mobilization of untapped capital and human skills and lead to dispersal of manufacturing activities all over the country. This in turn results in the growth of villages, small towns and economically lagging regions. This creates balanced regional development. Increase in number, production, employment and exports of small scale industries over a period of time are some of the parameters that indicate the role played by SSIs in India. The production has improved from Rs. 7,200 crore during 1973-74 to about Rs. 700,000 crore during 2006-07, and much more by now. The employment has increased from about 40 lakhs in 1973-74 to about 200 lakhs during 2006-07. Exports also have gradually increased to about Rs. 75,000 lakhs.

The small-scale industries have registered phenomenal growth in their number from about 2.5 lakhs during 1973-74 to about 36 lakhs by 2006-07. Statistics reveal that SSIs account for about 35% of the gross value of the output in manufacturing sector, about 78 to 80% of total employment in industries and about 38% of the total exports of the country.

### 13.7 ADVANTAGES OF SSIs

SSIs have both economic and social advantages, some of them are listed below:

- (i) SSIs don't require to a high level of technology.
- (ii) They do not require large capital.
- (iii) The source and capabilities of under employed and unemployed people can be used for productive purpose.
- (iv) The projects related to SSIs can be completed in short period and hence can become productive in a short period.
- (v) SSIs can be based on the processing of locally produced raw materials like agricultural goods, forest and mineral resources etc.
- (vi) Possibility of earning and saving foreign exchange by exporting goods produced from local resources.

- (vii) Source of employment for local people, either full time or part time.
- (viii) SSIs act like training area for local entrepreneurs.
- (ix) SSI can bring about more uniform distribution of income in the society.
- (x) SSIs create immediate employment at a relatively small capital investment.
- (xi) SSIs have small gestation period.
- (xii) They offer a method of equitable distribution of national income.
- (xiii) SSIs facilitate mobilization of capital and skills which often remain unutilized.
- (xiv) They meet the increased demand of consumer goods and mass consumption goods.
- (xv) They help in economic growth of the country.
- (xvi) SSIs make it possible to shift manufacturing activities from busy towns to rural areas. This helps in geographical distribution of skills and technology in the country.
- (xvii) SSIs help in creating jobs for unemployed.
- (xviii) They help in developing rural areas.

### 13.8 STEPS TO START A SSI

The development of small scale industries has been one of the most significant feature of industrial growth in our country. The main features of small-scale industries are that they create great employment opportunities, assist in entrepreneurship, ensure better use of resources like finance, raw material and technology. They need small amount to start with. They help in balancing of country's economy and uniform development of industries all over the country unlike large-scale industries that tend to concentrate in few cities and in the hands of rich.

The motto underlying the development of small and medium scale industries are the increase in the supply of manufactured goods, the development of local entrepreneurial talents and skills, the promotion of capital formation, creation of broader employment opportunities and utilizing the untapped investment.

The various steps involved in starting a SSI are given below:

- (i) Selection of industry
- (ii) Arrange for know-how/technology
- (iii) Study of resource requirement
- (iv) Selection of land and premises

- (v) Study of investment requirement
- (vi) Study of requirement of plant and equipment
- (vii) Study of requirement of raw material and sources of supply
- (viii) Study of economic viability like marketing and pricing strategy, financing, staffing, SWOT analysis, break even analysis, return on investment etc.
- (ix) Preparation of project report
- (x) Application to financial institutions for loan for fixed assets and working capital.
- (xi) Application to Directorate of Industries for No Objection Certificate, Registration as SSI, Power and Permission.
- (xii) Get NOC and permission from local body (municipality/village panchayat/corporation)
- (xiii) Apply for power connection
- (xiv) Recruit staff and workers
- (xv) Order for plant and machinery
- (xvi) Order for raw materials
- (xvii) Install the machinery
- (xviii) Trial runs
- (xix) Production and sales
- (xx) Profits and pay creditors.

### 13.9 GOVERNMENT POLICY TOWARDS SSI ✓

Small-scale industries have been given importance in five years plans by Government of India. Government of India has started various programmes for the development of small-scale industries in India. Government has announced several objectives and intentions towards SSI through Industrial Policy Resolutions (IPRs). Since independence Government has announced several IPRs.

### 13.10 DIFFERENT POLICIES OF SSI

#### IPR 1948:

Importance of SSIs in the overall industrial development of the country was accepted for first time in IPR 1948. It was well recognized that SSIs are particularly suited for using the local resources and to create employment for rural. Initially SSIs faced lot of problems like shortage of raw materials and